



# **Fairfax County**

# **Internal Audit Office**

**Fairfax County Police Department  
Animal Shelter Financial Operations & Substance  
Control Audit  
Final Report**

**November 2016**

***"promoting efficient & effective local government"***

# Introduction

The Fairfax County Animal Shelter (Animal Shelter) is the County's only open-access, municipal shelter facility. With four to five thousand animals coming through their doors each year, the Animal Shelter provides a safe-haven for dogs, cats, and small animals like guinea pigs, rabbits and pet birds. The primary function of the animal shelter is to provide care and shelter for animals surrendered by the public and/or brought in by Animal Control as strays. The program enables owners to be reunited with their lost pets while serving the community and reducing the population of homeless pets. The animal shelter utilizes PetPoint, an integrated web-based and data management system to manage and track data. Revenues generated by the Animal Shelter are primarily from dog licenses, animal adoptions and redemptions, as well as donations. During fiscal year (FY) 2015, the Animal Shelter Division collected approximately \$1.2 million in revenues.

## Executive Summary

Our audit focused on the internal controls over processes for collecting, depositing, and recording revenue at the Fairfax County Animal Shelter. We performed a review of the process to ensure amounts due to the county were properly collected, safeguarded and recorded. We reviewed the functionality of the PetPoint system to ensure the system was able to automate the processing of licenses, adoption contracts, manage and retrieve data pertaining to animals, and produce close-out reports for cash drawers. We also reviewed controls over the system to ensure only authorized staff were granted access. Finally, we examined internal controls over the safeguarding and distribution of medications and medical supplies held by the division, as well as euthanasia procedures. The Department of Tax Administration (DTA) processes the majority of dog licenses. Our audit focused primarily on those dog license transactions processed at the Animal Shelter. Our audit found that internal controls over the processing of revenues were weak in several areas. The significant findings in these areas were as follows:

- Animal Shelter's current Standard Operating Procedures (SOPs) for handling cash transactions did not reflect the actual business policy and needed to be updated. In addition, the Animal Shelter did not maintain SOPs related to storage, access and distribution of medications and medical supplies.
- A log of payments received through the mail was not maintained, making it difficult to determine when funds were received, deposited, or recorded. In addition, checks received through the mail were not restrictively endorsed immediately upon receipt, increasing the risk of fraud.
- The majority of checks and cash received at the Animal Shelter were not deposited into the bank, or posted to FOCUS in a timely manner, as required by County policy.
- Authorization for discounts and voided transactions were verbal and therefore, not properly documented. Verbal approvals increase the risk of fraud by cashiers and

decrease accountability of the approver.

- The combination to an on-site safe was not changed annually or when an employee left the department, as required by County policy.
- A daily cash drawer closing report generated from the system was not used for reconciling daily revenues and recording voided transactions. This increases the risk of fraud or errors.
- The PetPoint software did not require users to create strong passwords, and passwords did not have expiration dates. In addition, once a cashier was logged into the system, a transaction could be processed under another cashier's name without that cashier authenticating or approving, thereby creating an incorrect audit trail, decreasing accountability and increasing the risk of fraudulent transactions.
- We found isolated instances of transactions that had control weaknesses which, could lead to inaccurate cash reconciliations and present risks of errors or fraudulent activity, if not rectified in a timely manner.

## Scope and Objectives

This audit was performed as part of our fiscal year 2016 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit covered the period January 1, 2014, through June 30, 2015. The objectives of the audit were to determine that:

- Revenue owed to the County was billed and collected.
- Payments were deposited in a timely manner.
- Amounts received were posted and reconciled in a timely and accurate manner.
- Adequate separation of duties was in place within the collection process.
- Proper adjustments, write-offs, or refunds were made on amounts due.
- Fees due were properly calculated.
- Revenue collected was adequately safeguarded from theft.
- Access controls were adequate and audit trail information was available.
- Medications for animals were properly distributed and adequately safeguarded from theft or misuse.

# Methodology

Our audit methodology included interviewing appropriate employees, documenting the processing of revenues, completing an internal control questionnaire, developing a risk assessment, and detailed testing of various sample transactions. We also evaluated the processes for compliance with sound internal controls, County policies, departmental policies and procedures, and state regulations.

The Fairfax County Internal Audit Office (IAO) is free from organizational impairments to independence in our reporting as defined by Government Auditing Standards. We report directly and are accountable to the County Executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the County Executive and the Board of Supervisors, and IAO reports are available to the public.

## Findings, Recommendations, and Management Response

### 1. Policies and Procedures

The Animal Shelter Standard Operating Procedure (SOP) #13 *Management of Financial Transactions* and SOP #6 *Euthanasia Procedures* did not clearly reflect the actual business operations. Our review of the SOPs for these areas revealed the following:

- a. The SOP for financial transactions required the initial cash amount to start the day be set at \$50; however, the Animal Shelter staff informed us that the beginning amount had been set at \$30 for years. Therefore, the SOP needs to be updated.
- b. The SOP required waivers for fees, discounts or adjustments have signed authorizations from the Animal Shelter director or a management level designee, in the director's absence; however, no written authorizations were noted in actual practice.
- c. The SOP stated that bank deposits were made in accordance with Accounting Technical Bulletin (ATB) 40070 (Financial Policy Statement [FPS] 470) - *Processing Monetary Receipts*. The SOP also stated that a bank deposit would be made each day, Monday through Friday. In the event that there was no one available to make the deposit, the deposit would be made as soon as possible on the next business day. However, our discussion with Animal Shelter staff revealed that bank deposits were made only twice a week, and our review of financial transactions noted several instances of late deposits.
- d. The SOP for euthanasia procedures specified that all euthanasia procedures would be performed in accordance with Directive 79-1 of the

Virginia Department of Agriculture and Consumer Services (VDACS) Division of Animal Health. In accordance with this directive, one of the prescribed circumstances under which euthanasia could be performed was if a dog or cat showed signs of rabies or suspected of having rabies, for which confinement was not possible or practical. This procedure was missing from their SOP.

- e. The VDACS Directive 79-1 required forms AC4 (Animal Euthanasia Training Record), AC5 (Competency Certification for Animal Euthanasia) and AC6 (Veterinary Supervision and Protocol Summary for Companion Animal Euthanasia) be maintained at the animal facility. These forms were maintained by the Animal Shelter; however, the SOP included only form AC6 in the addendum of documents required. The SOP needed to be updated to include forms AC4 and AC5.
- f. The SOP Addendum #1 related to Form AC6 (Veterinary Supervision and Protocol Summary for Companion Animal Euthanasia) included forms containing information about the previous supervising veterinarian and drug dosing details. The Animal Shelter contracted with a new supervising veterinarian in June 2015; however, the SOP was not updated.

In addition, the Animal Shelter did not maintain SOPs related to storage, access and distribution of medications and medical supplies for animals.

Policies and procedures ensure consistency in day-to-day operations and reinforce management's expectations for the agency. Failure to have updated policies and procedures may result in undefined procedures leading to inconsistency in operations. Furthermore, without policies and procedures accurately describing procedures and requirements, there is an increased risk of ineffective and inefficient collection of funds that may result in reduced revenues and errors.

**Recommendation:** We recommend the Animal Shelter update their SOPs to reflect actual operations, and develop SOPs for medications and medical supplies.

**Management Response:** Animal Shelter will update the current SOPs #6 and #13 to reflect actual operations, and develop new SOPs for medications and medical supplies. Management anticipates completing this action by November 30, 2016.

## **2. Checks Received through the Mail**

The Animal Shelter did not maintain a log for recording receipts of checks received through the mail and they were not restrictively endorsed immediately upon receipt. Our testing of daily cash reports revealed three transaction dates with a total of seven checks dated one and a half to four months before the actual transaction date. The checks were for dog licenses and donations from customers. Since there was no receipts log, we could not tell when they were actually received.

County Policy ATB 40070 (FPS 470) – *Processing Monetary Receipts* requires checks received through the mail be logged in an established journal and be restrictively endorsed immediately upon receipt. In the absence of a receipts log, it is not possible to determine when funds were received and whether they were deposited on time. The total amount of funds received cannot be matched to totals of funds deposited; this increases the risk for fraud or errors.

If checks were not endorsed immediately upon receipt there is no assurance that all checks were deposited in the designated bank account and not diverted for other purposes. The longer the checks are not endorsed, the greater the risk they could be improperly negotiated.

**Recommendation:** A daily receipt log should be prepared for revenue received through the mail. The log can be in manual or electronic format and should contain the date received, the amount received, the name of the payer, and purpose of the payment and should be reconciled to deposit slips. Additionally, checks received through the mail should be restrictively endorsed immediately upon receipt.

**Note:** Internal Audit verified the Animal Shelter implemented the recommendation related to maintaining a daily receipt log during the course of our audit, therefore, no follow-up is needed for this item.

Follow-up is needed for the “check endorsement” section of this finding.

**Management Response:** Staff who open the mail are required to endorse checks immediately upon receipt, and record the date of endorsement in the “Checks received by mail” log. This is effective immediately.

### 3. Deposit and Recordation of Monetary Receipts

Amounts received at the Animal Shelter were not deposited into the bank, or posted into FOCUS in a timely manner, as required by the County policy. Deposits to the bank were made only twice a week, and our testing of daily cash records revealed that bank deposits were late in 81% of the sampled days, and were recorded late in FOCUS in 84% of the sampled days. While the delay in deposit and FOCUS posting in most of the sampled items was one to eleven days, in one instance the amounts received on June 30, 2015, were deposited on July 27, 2015, and posted in FOCUS on July 28, 2015. The Department of Finance (DOF) year-end closing procedures for FY2015 specifically stated all receipts received on or before June 30, 2015, should be deposited and reported in the current fiscal year; however, the amounts received on June 30, 2015 were deposited and posted in FY 2016.

ATB 40070 (FPS 470) – *Processing Monetary Receipts*, requires all monetary receipts be deposited to the County’s bank accounts and recorded in the County’s financial system no later than the next business day after receipt of funds. This ensures loss prevention, improved cash flow, accurate cash forecasting, facilitation of bank reconciliation, effective management of County’s investment

portfolio, and increased interest from pooled cash. The County year-end closing procedures should be followed by all County departments to ensure the financial statements portray an accurate financial position.

**Recommendation:** The Animal Shelter should develop and document procedures to ensure timely deposits and posting of monetary receipts. If factors prevent the Animal Shelter from complying with County policy and year-end closing procedures, they should consult the DOF to obtain an approval for an alternate plan.

**Management Response:** Administrative staff will make deposits and post revenues to FOCUS daily, Monday through Friday, with occasional exceptions due to administrative staff having to follow-up with a cashier on a question, an error in deposit or the reconciliation process, before deposit is made; the resolution for which may take more than 24 hours. The Animal Shelter director will apply to DOF to obtain exemption for these occasional exceptions as well as for late processing of June 30 business day revenue. Management anticipates completing this action by October 31, 2016.

#### 4. Controls over Discounts/Voids

Customer discounts and voids were verbally authorized by management and no approving signature was required. Proper internal control principles dictate that authorizations should be properly documented.

According to the Animal Shelter Standard Operating Procedure #13, *Management of Financial Transactions*, "Waivers of fees, discounts or adjustments require signed authorization from the Director or a management level designee, in the absence of the director." Verbal approval of adjustments and voids increases the risk of fraud making it easier for cashiers to indicate approval when there was none. It also decreases the accountability of the approver making it easy to deny approval was given.

**Recommendation:** Approvals for discounts and voids should be documented with the signature of the authorizing individual on the receipt.

**Note:** Internal Audit verified the Animal Shelter implemented this recommendation during the course of our audit. No follow-up is needed for this item.

#### 5. Access to the Safe

The combination to the safe located at the Animal Shelter was not changed annually or when a staff member who knew the combination left the department. The safe stored cashiers' bank bags, change funds, credit card receipts, and batches of cash receipts not yet deposited. One of the staff members with access to the safe recently left the department; but the combination code to the safe was not changed. During our audit, the combination was changed the day after our inquiries and we were informed the combination was last changed in December,

2012.

ATB 40070 (FPS 470) - *Processing Monetary Receipts*, requires that safe or vault combinations should be changed whenever a staff member who has access to the combination leaves the employment of the department, and be changed at least annually. Not changing the safe combination when a staff member with knowledge of the combination leaves or no longer has authorization, increases the risk of theft by unauthorized employees accessing the safe.

**Recommendation:** We recommend the Animal Shelter comply with the County policy for changing the safe combination whenever a staff member leaves the employment of the department, and/or at least annually.

**Note:** Internal Audit verified the Animal Shelter implemented this recommendation during the course of our audit. No follow-up is needed for this item.

## 6. Effective Use of Animal Shelter Management Software

The Animal Shelter did not make use of the following functionalities available in the PetPoint system, resulting in weak controls over processing financial transactions:

- a. **System Generated Cash Report:** A daily cash drawer closing report generated from the system was not used for reconciling daily revenues. Cashiers reconciled their cash drawers to their manual daily summary sheets at the end of the business day, and supervisors verified the transactions reported on the cashiers' daily summary sheets. System generated close out reports decrease the risk of fraud or errors.
- b. **System Generated Voided Transaction Report:** A report of voided transactions generated from the system was not used to review the voided transactions for the day. Instead, the supervisors reviewed only the voided receipts submitted by the cashiers at the end of the day. In the absence of a voids report generated from the system to review, there was a risk that a voided transaction could go undetected, resulting in theft of money.

Effective use of Animal Shelter management software would significantly increase overall controls and operational efficiency and effectiveness. Inadequate use of system functionalities for processing and reconciling transactions increases the risk of theft, leading to erroneous reconciliations and the loss of data.

**Recommendation:** The Animal Shelter should utilize standard system reports to reconcile daily revenue and voided transactions.

**Note:** Internal Audit verified the Animal Shelter implemented this recommendation (6a and 6b) during the course of our audit. No follow-up is needed for this item.

## 7. Controls over Animal Shelter Management Software



The PetPoint system, a web-based data management system, could be accessed without logging into the County network. We found the following control weaknesses in the system:

- a. **Passwords:** The PetPoint system did not require users to create strong passwords and the passwords did not have expiration dates. Though the minimum requirement for password length for access to the system was eight characters, it was not required to specifically include upper case and lower case letters, numbers and special characters. Users were not required to change their passwords periodically and the passwords had not been changed since the Animal Shelter started using the system.
- b. **Transaction Audit Trail:** Individual cashier transactions were only identified in the Animal Shelter software at the transaction level and not at the sign-on level. Once a cashier was logged into the system, a transaction could be processed under another cashier's name by selecting user from the menu. Although the Animal Shelter staff said this feature was not used, there was a risk of someone processing a fraudulent transaction under another person's name. Further, the PetPoint system did not generate exception reports; therefore, any unusual activity such as fraudulent refunds/voids or unauthorized discounts could not be easily detected.

Fairfax County Information Technology Security Policy 70-05.01 v6 requires that, "Fairfax County information systems enforce complexity requirements for all user, administrative, and system account passwords. Users should be required to use a minimum of six characters when creating passwords, include uppercase and lowercase letters, numbers, and special characters when technically feasible. Passwords for all general user and administrative accounts should be changed every 90 days and password reuse minimized according to system specifications. System and service accounts should comply with the same requirements unless specifically approved through the formal exception process." Further, County information systems should generate audit trail records that contain sufficient information to determine the type, date and time, location and affected systems, the source and destinations, the success or failure, and the identities of any users or objects associated with the event.

Password identification and authentication is critical to every computer system. Weak passwords cannot adequately protect the system from unauthorized access, modification, disclosure, or impairment. Having a feature enabled in the system where a user has the ability to process a transaction in another user's name without the knowledge and approval of the other user could create audit trail and accountability issues.

**Recommendation:** We recommend the Animal Shelter require users change passwords every 90 days and immediately delete/remove users who resign or leave the agency. The Animal Shelter should coordinate with the software vendor to develop strong password automation features in the PetPoint system to require

upper case and lower case letters, numbers and special characters in compliance with the strong password requirements as stipulated on the County's Information Technology Security Policy 70-05.01 v6, and disable the feature allowing a user to process a transaction under the name of another user.

**Note:** Internal Audit verified the Animal Shelter implemented this recommendation (7a and 7b) during the course of our audit. No follow-up is needed for this item.

## **8. Daily Cash Processing – Miscellaneous**

During our testing of daily cash reports, we noted the following exceptions:

- a. One of the adoption receipts paid by credit card was for \$37.50; however, the amount was manually changed on the receipt to \$32.50 and the credit card was charged \$32.50.
- b. In one instance, receipts were missing for two credit card transactions, and another instance where the receipt was missing for one credit card transaction.
- c. There was one instance each of an incomplete cashier's summary sheet, a missing supervisor summary report, and a supervisor summary report with no signature.
- d. There was one instance where the deposit slip had no date, another where the deposit slip date was more than one month prior to the actual deposit date, and a third where the deposit slip date was one day after the date of the actual deposit.
- e. On five transaction dates, copies of checks received were missing for donations and dog licenses.

ATB 40070 (FPS 470) - *Processing Monetary Receipts*, requires departments establish and maintain proper internal controls for all processes related to collection and deposit of monetary items.

Although each instance was isolated in nature, they reflected weak controls when viewed collectively. Such exceptions could lead to inaccurate cash reconciliations and present risks of errors or fraudulent activity.

**Recommendation:** We recommend the Animal Shelter properly review cash processing transactions for accuracy and timeliness; and adhere to the County policy to strengthen controls.

**Management Response:** Once the Animal Shelter cash handling SOPs are updated, a meeting will be held with cashiers to review cash handling policies and procedures. Management anticipates completing this action by December 31, 2016.